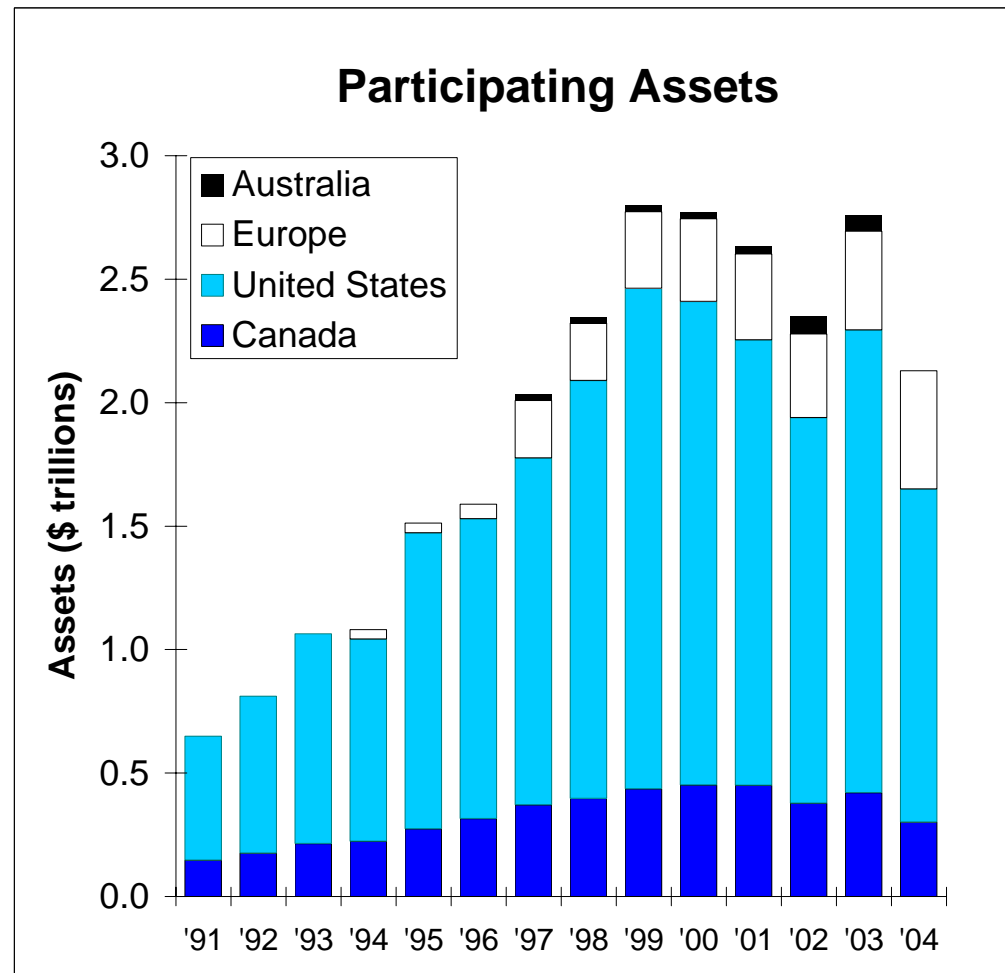


This benchmarking report compares your cost and return performance to CEM's extensive pension performance database.

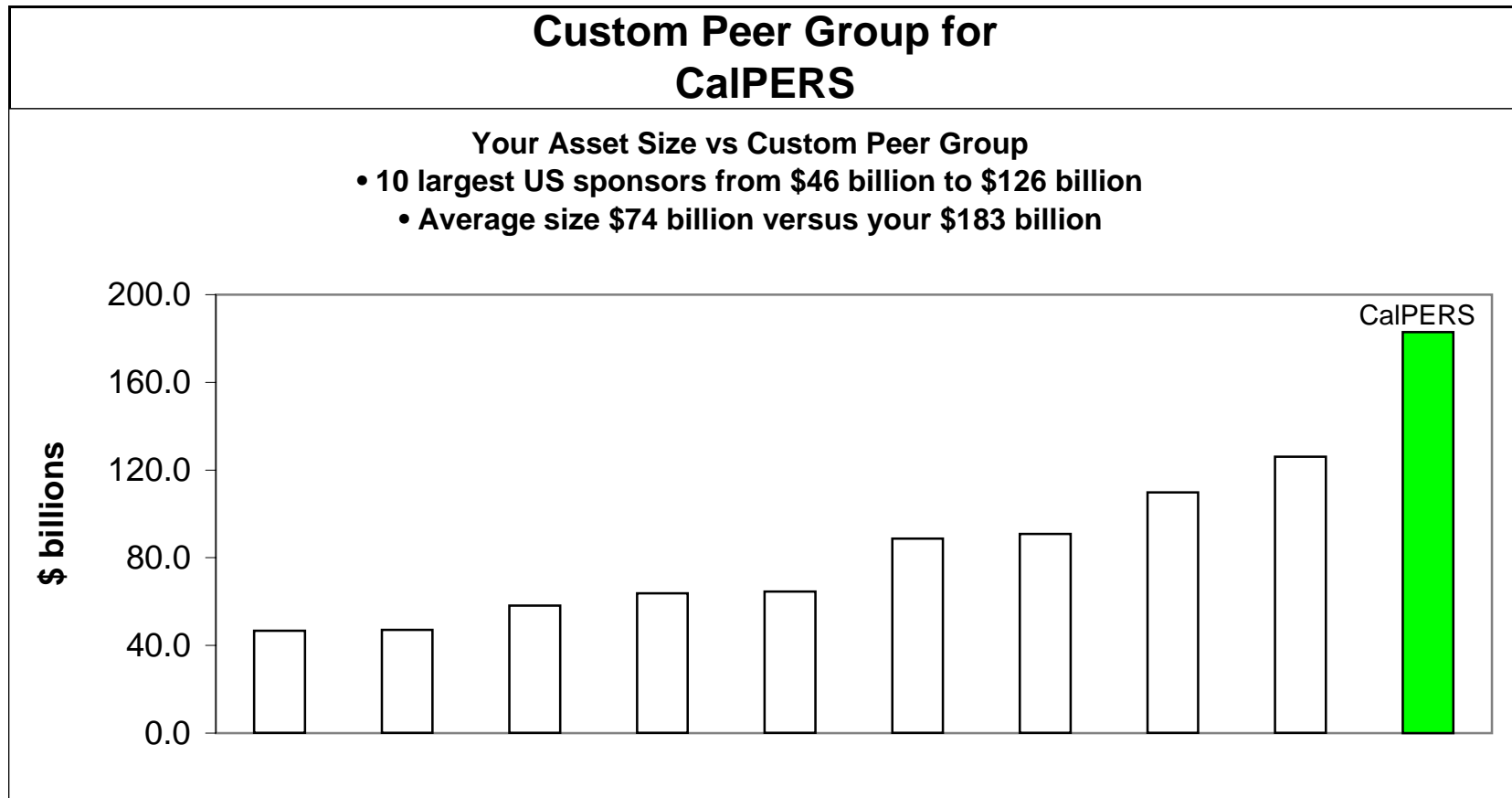
As of July 13, 2005:

- 134 US pension funds participate. They represent 25% of U.S. defined benefit assets. The median US fund had assets of \$4.3 billion, while the average US fund had assets of \$13.5 billion. Total participating US assets were \$1.3 trillion.
- 79 Canadian funds participate representing 70% of Canadian defined benefit assets.
- 15 European funds participate with aggregate assets of €401 billion. Included are funds from The Netherlands, Norway and Ireland.
- 11 Australian funds participate with aggregate assets of A\$60 billion.

The most meaningful comparisons for returns and value added are to the US universe.



The most valuable comparisons for cost performance are to your custom peer group because size impacts costs.



In order to preserve client confidentiality, we do not disclose your peers' names in this document because of the Freedom of Information Act.

What gets measured gets managed, so it is critical that you measure and compare the right things:

1. Policy Return

How did your policy asset mix decision compare to other funds?

2. Implementation Value Added

Are your implementation decisions (i.e., mostly active management) adding value?

3. Implementation Risk

How much risk was taken to obtain your Implementation Value Added?

4. Costs

Are your costs reasonable?
Costs matter and can be managed.

5. Cost Effectiveness

Net Implementation Value Added vs Excess Cost.
Does paying more get you more?

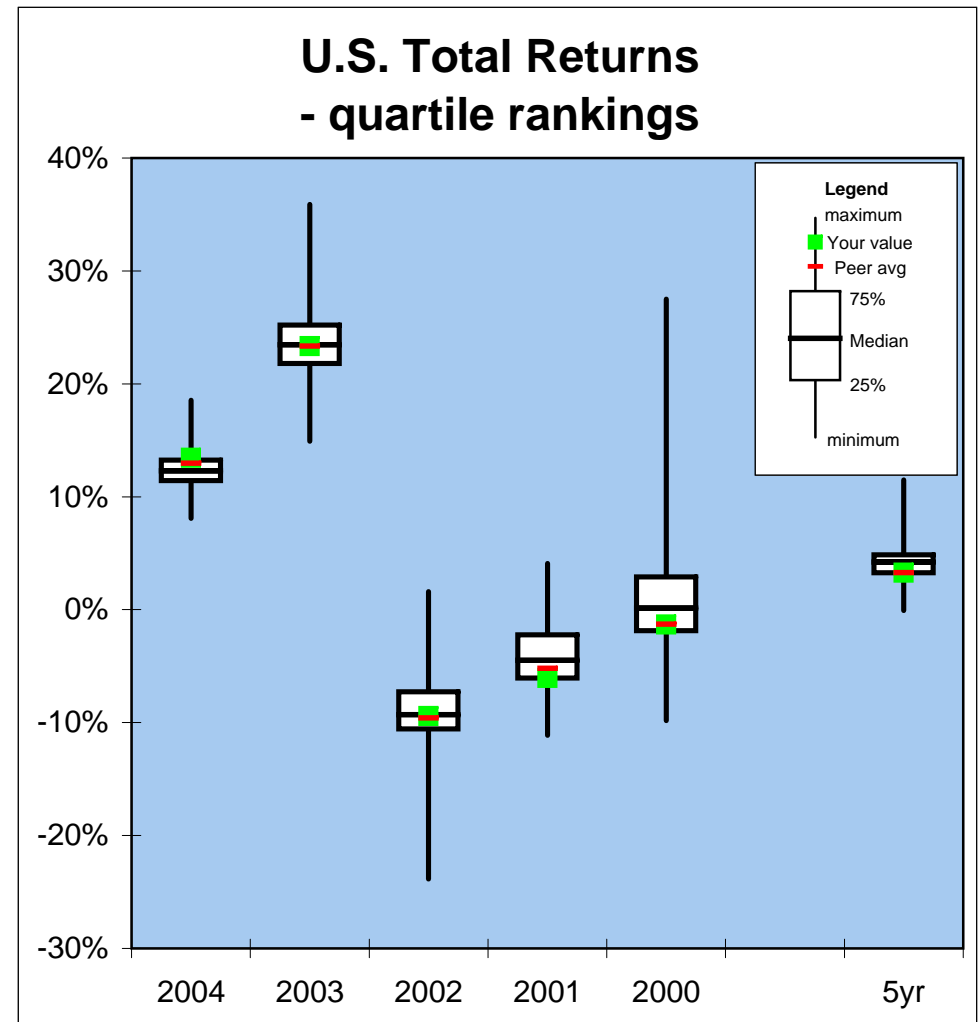
Total Returns, by themselves, are the wrong thing to compare and focus on.

They do not tell you the reasons behind good or bad relative performance.

Therefore, we separate Total Return into its more meaningful components - Policy Return as determined by CalPERS Strategic Asset Allocation and Implementation Value Added as determined by Staff's implementation of Board Policy.

	Your 5-yr
Total Fund Return	3.3%
Policy Return	2.4%
Implementation Value Added	0.9%

This approach enables you to understand the contribution from both policy asset mix decisions (which is the Board's responsibility) and implementation decisions which is the Investment Staff's responsibility.



1. Policy Returns

Policy Return is the component of your Total Return resulting from your policy asset mix decisions. Your 5-yr policy return of 2.4% was below the US median of 3.2%.

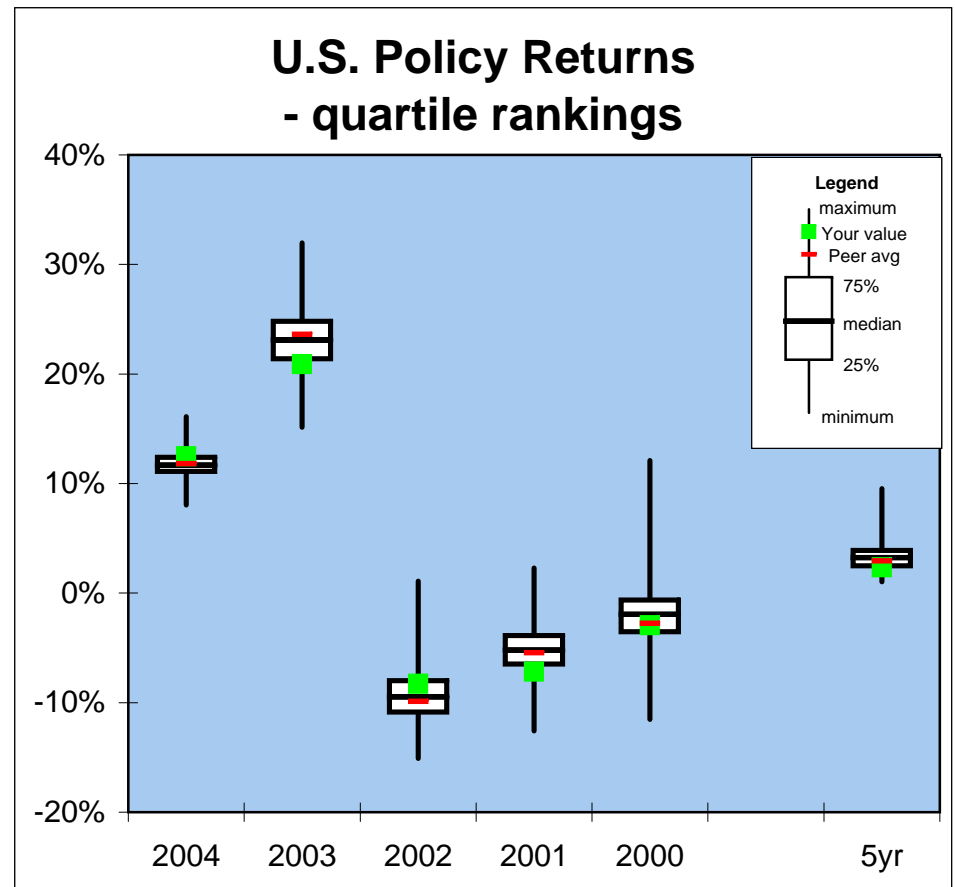
Your Policy Return is the return you could have earned passively by indexing your investments according to your investment policy asset mix.

Having a higher or lower relative Policy Return is not necessarily good or bad. This is because your policy return reflects your investment policy, which should reflect your:

- Long term capital market expectations
- Liabilities
- Appetite for risk.

Each of these three factors is different across funds. Therefore, it is not surprising that Policy Returns often vary widely between funds.

Your peer median 5-yr Policy Return was 2.9%.



1. Why does your Policy Return differ from average?

Your below US median 5-yr Policy Return reflects:

- The negative impact of your Venture Capital & LBO benchmark return. Your 5-yr return of -8.6% was below US average of 4.2%. You use a custom Venture Economics index based on actual private equity returns, whereas most US funds use custom benchmarks based on public equity indices (e.g. Russell 3000 + 400 bps). There can be substantial differences between private equity returns and public market returns.
- The negative impact of the Combined Domestic Stock benchmark return. Your 5-yr return of -1.9% was below the US average of -0.8%. You use a custom PERS Wil2500 index whereas many US funds have separate large cap and small cap benchmarks. Small caps outperformed Large caps during the past 5 year period.

Partially offsetting the above was:

- The positive impact of your relative overweighting in one of the best performing asset classes of the past 5 years: real estate (your 5-yr avg weight of 8% versus a US average of 4%).

5-year Average Policy Asset Mix

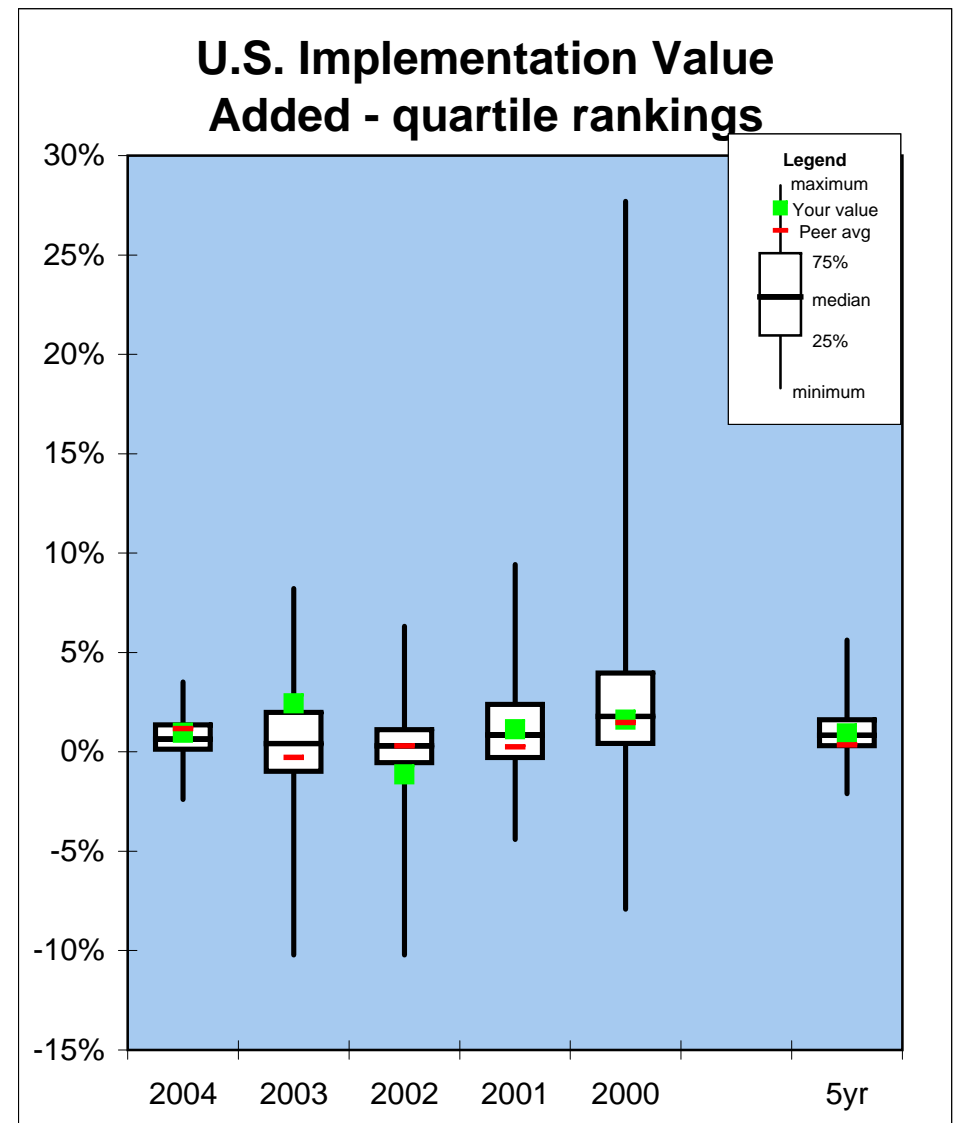
Asset Class	Your Fund	Peer Avg	US Avg
Domestic Stocks	39%	42%	45%
Foreign - Developed Stocks	19%	17%	15%
Foreign - Emerging Markets	0%	1%	1%
Fixed Income	27%	27%	30%
Inflation indexed bonds	0%	0%	1%
Cash	0%	1%	1%
Real Estate & REITS	8%	7%	4%
Private Equity & Hedge Funds	6%	6%	4%
Total	100%	100%	100%

2. Implementation Value Added

Implementation Value Added is the component of your Total Return from Staff's implementation of Board Policy. Your 5-yr Implementation Value Added was 0.9%.

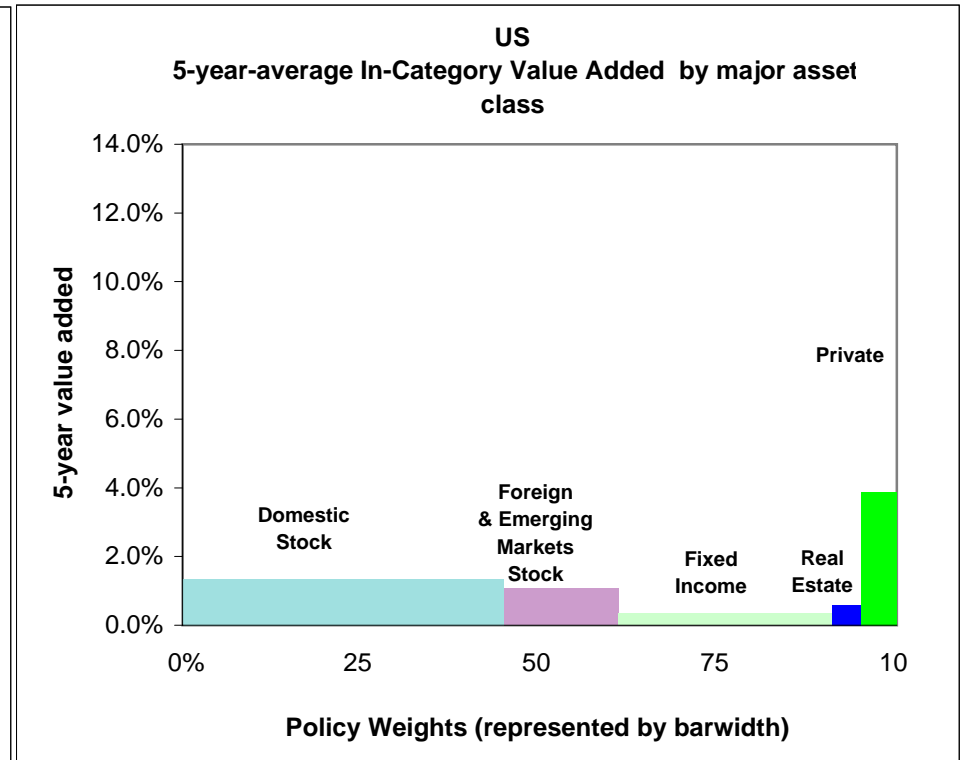
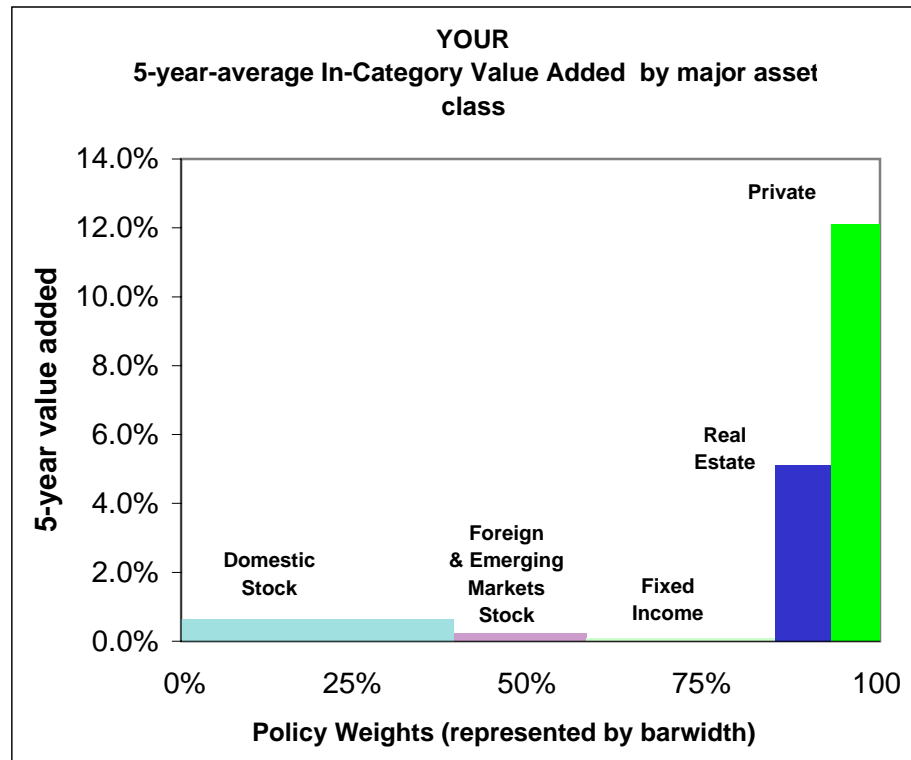
- This compared to a peer median of 0.4%.
- Your value added from implementation decisions equals your total return minus your policy return.
- Your 5-yr Implementation Value Added of 0.9% consisted of 1.5% from In-Category (actual performance relative to benchmarks) and -0.6% from Mix (primarily differences between your actual and policy asset mixes).
- In dollar terms this was approximately equal to an average amount of \$1.6 billion.
- Your 10-yr Implementation Value Added was 1.0% per year. This is approximately equal to a total dollar amount of \$13.7 billion over the 10 year period.

Year	Actual Return	Policy Return	Value Added		
			Total	In-Category	Mix
2004	13.5%	12.5%	1.0%	1.9%	-0.9%
2003	23.3%	20.9%	2.4%	1.6%	0.9%
2002	-9.4%	-8.3%	-1.1%	-0.6%	-0.5%
2001	-6.1%	-7.2%	1.1%	1.1%	0.0%
2000	-1.3%	-2.9%	1.6%	3.6%	-2.0%
5-yr	3.3%	2.4%	0.9%	1.5%	-0.6%



**2. Implementation
Value Added
(In-category by Asset
Class)**

You had positive 5-yr In-Category Value Added in all major asset classes.



1. Note: Your 5-yr private equity benchmark return was -8.6% versus a US 5-yr average benchmark return of 4.2%. This is one reason for your higher 5-yr value added in this asset class.

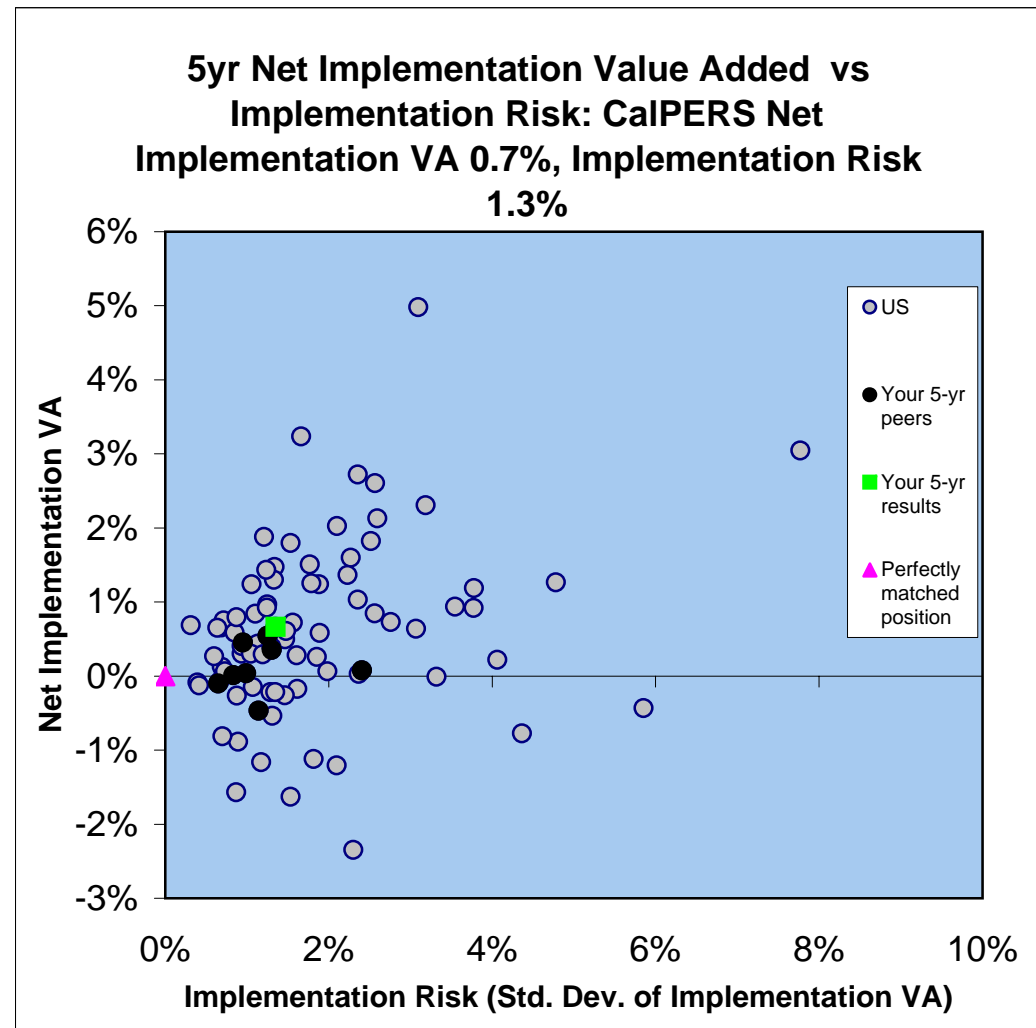
Private equity is difficult to benchmark. It is one of the few asset classes where we accept absolute hurdles or indices with premiums and do not insist on funds using market indices. Thus, comparisons of value added for this class are less meaningful.

* Your hedge fund returns have been reported 'net' of management & performance fees, consistent with other published reports. However, it is CEM's policy to report all returns gross. Therefore, CalPER's hedge fund returns is understated relative to peers and the universe.

3. Implementation Risk

Your 5-yr Implementation Risk of 1.3% was equal to the US median of 1.3%.

"Implementation Risk" is the risk of active management. CEM defines Implementation Risk as the standard deviation of your Net Implementation Value Added.



**4. Costs
(Total)**

Asset mix and implementation decisions impact costs. Your asset management costs (including Oversight) in 2004 were \$423.8 million or 25 basis points.

- CEM collects investment costs by major asset classes and 4 different implementation styles.

- Oversight, Custodial & Other cost includes all costs associated with the oversight and administration of the investment operation, regardless of how these costs are paid.

Costs pertaining to benefit administration, such as preparing checks for retirees, are specifically excluded.

*Real estate fees exclude property management costs.

**Fund of Fund Hedge Fund fees include advisor fees as well as underlying fund management fees.

Your Investment Management Costs (\$000s)					
	Internal		External		Total
	Passive	Active	Passive	Active	
Domestic Equity - Large Cap	838			21,716	22,555
Domestic Equity - Small Cap					
Foreign Equity			3,121	36,301	39,422
Emerging Equity				3,826	3,826
Domestic Fixed Income		6,855			6,855
Foreign Fixed Income				6,482	6,482
High Yield Bonds				10,008	10,008
Cash & Equivalents		254			254
REITs		123			123
Real Estate ex-REITs*				112,967	112,967
TAA		572			572
Hedge Funds					
Fund of Fund Hedge Funds (including underlying fees)**				11,167	11,167
Venture Capital/LBO				181,791	181,791
Fund of Fund VC & LBO (including underlying fees)					
Overlay Programs					3,519
Total Investment Management Costs				23.2bp	399,538
Your Oversight, Custodial & Other - asset related (\$000s)					
Oversight of the Fund					11,373
Trustee & Custodial					9,660
Consulting and Performance Measurement					2,653
Audit					539
Other					80
Total Oversight, Custodial & Other Costs				1.4bp	24,305
Total Operating Costs in \$000s				24.6bp	423,843

4. Costs

- Are they high or low?

Benchmark Cost analysis suggests that your fund was very low cost.

To assess your cost performance, we start by calculating your Benchmark Cost. It is an estimate of what your cost would be using your asset mix and the median costs that your peers pay for similar services.

	in \$000's	basis points
Your Fund's Actual Cost	\$423,843	25 bp
Your Fund's Benchmark Cost*	<u>\$557,878</u>	<u>32 bp</u>
Your Fund's Cost Savings	-\$134,035	-8 bp

Your Actual Cost of 25 bp was less than your Benchmark Cost of 32 bp, indicating that you were a low cost fund.

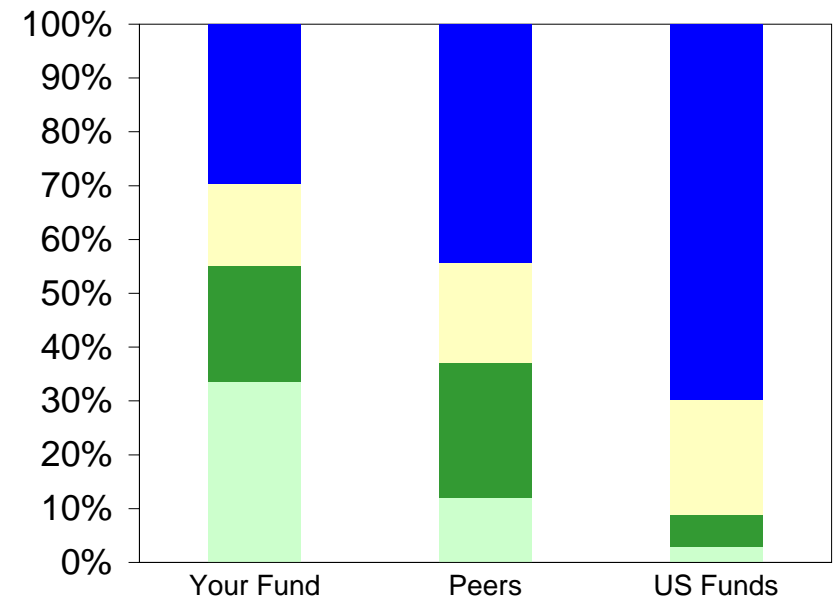
The following pages review reasons behind your low cost status.

4. Costs Is it Style?

Your fund used less external active management than your peers (30% versus 44% for your peers).

- External active management is significantly more expensive than internal management, or external passive management.

Implementation Style



■ External active	30%	44%	70%
■ External passive	15%	19%	22%
■ Internal active	22%	25%	6%
■ Internal passive	33%	12%	3%

4. Costs - Impact of Style

Your lesser use of external active management saved you 1 bp relative to your peers. Other differences in implementation style saved you another 1 bp.

- Having more or less of an asset class managed through external active management than your peers creates cost differences.

- External Fund of Funds can be the most expensive implementation style when all costs are considered.

- Impact of differences in lower cost styles refers to the impact caused by your allocation among internal passive, internal active and external passive management, in comparison with your peers.

¹ External Active Cost Premium is the additional cost of external active management relative to the average of other lower cost implementation styles - internal passive, internal active and external passive.

- 'N/A' Indicates insufficient peer data to calculate external active cost premium. This is most often a result of insufficient peer 'lower cost' implementation style data.

Impact from differences in use of External Active management					
	Average Holdings \$M	External Active			Dollar Impact \$000
		Holdings % of asset class		Cost	
		Your%	Peer Avg%	Premium ¹	
Domestic Equity - Large Cap	\$68,769	16.2%	24.5%	21	-12,150
Foreign Equity	\$35,637	26.5%	60.9%	24	-29,768
Emerging Equity	\$2,877	100.0%	N/A	N/A	
Domestic Fixed Income	\$33,949	0.0%	34.8%	8	-9,038
Foreign Fixed Income	\$6,348	100.0%	N/A	N/A	
High Yield Bonds	\$1,306	100.0%	N/A	N/A	
Cash & Equivalents	\$1,747	0.0%	N/A	N/A	
TAA	\$965	0.0%	N/A	N/A	
REITs	\$667	0.0%	50.5%	25	-855
Real Estate ex-REITs	\$19,997	100.0%	71.1%	38	21,816
Hedge Funds	\$785	0.0%	83.3%	N/A	
Fund of Funds	{	100.0%	16.7%	54	3,542
Venture Capital/LBO (fees pd)		100.0%	95.8%	98	7,454
Fund of Funds	{	0.0%	0.0%	N/A	
Other Private Equity (fees pd)		\$0			
Total	\$191,345	29.6%	44.3%		-\$18,998
External Active Impact in bps					-1 bp
Impact of differences in lower cost styles					-1 bp
Total Style Impact					-2 bp

4. Costs -
Are you paying
more for similar
services?

Your overall Oversight costs were \$10.1 million lower than your peers and your overlay costs were \$18.3 million lower.

Oversight, Custodial & Other Costs				
	Your 2004		Peer Median in bps	Impact of the difference in \$000's
	Avg Holdings in \$mils	Costs in bps		
Oversight	172,150	0.7 bp	0.9 bp	-3,473
Custodial/Trustee	172,150	0.6 bp	0.8 bp	-3,378
Consulting/Performance Measurement	172,150	0.2 bp	0.3 bp	-1,931
Audit	172,150	0.0 bp	0.0 bp	96
Other	172,150	0.0 bp	0.1 bp	-1,459
Total Impact in \$000's				-\$10,145
Total Impact in basis points				-0.6 bp

Overlay Costs				
	Your 2004		Peer Median in bps	Impact of the difference in \$000's
	Avg Holdings in \$mils	Costs in bps		
Overlay	172,150	0.2 bp	1.3 bp	-18,354
Total Impact in basis points				-1.1 bp

4. Costs -
Are you paying more
for similar services?

**Your Internally Managed Investment costs
 were \$367 thousand lower than your peers.**

Internal Investment Management Costs				
	Your 2004		Peer Median in bps	Impact of the difference in \$000's
	Avg Holdings in \$mils	Costs in bps		
Domestic Equity - Large Cap - Passive	57,603	0.1	0.3	-681
Domestic Fixed Income - Active	33,949	2.0	1.9	475
Cash & Equivalents - Active	1,747	1.5	1.5	0
TAA - Active	965	5.9	N/A	N/A
REITs - Active	667	1.8	4.3	-162
Total Internal Investment Management Impact in \$000's				-\$367
Total Internal Investment Management Impact in basis points				-0.02 bp

'N/A' indicates insufficient peer data to do meaningful comparisons.

4. Costs -
Are you paying more
for similar services?

**Your Externally Managed Investment costs
were \$74.5 million lower than your peers.**

External Investment Management Costs				
	Your 2004		Peer Median in bps	Impact of the difference in \$000's
	Avg Holdings in \$mils	Costs in bps		
Domestic Equity - Large Cap - Active	11,166	19.4	22.7	-3,575
Foreign Equity - Passive	26,185	1.2	2.4	-3,191
Foreign Equity - Active	9,452	38.4	28.9	8,966
Emerging Equity - Active	2,877	13.3	58.5	-13,006
Foreign Fixed Income - Active	6,348	10.2	29.0	-11,937
High Yield Bonds - Active	1,306	76.7	42.2	4,498
Real Estate ex-REITs - Active	19997.2*	56.5	59.8	-6,677
Hedge Funds - Active F. of F.	785	142.3	N/A	N/A
Venture Capital/LBO (fees pd) - Active	18,299	99.3	126.5	-49,607
Total External Investment Management Impact in \$000's				-\$74,530
Total External Investment Management Impact in basis points				-4.3 bp

*Real Estate ex-REITs - Active holdings are 'gross' holdings which include leverage.

'N/A' indicates insufficient peer data to do meaningful comparisons.

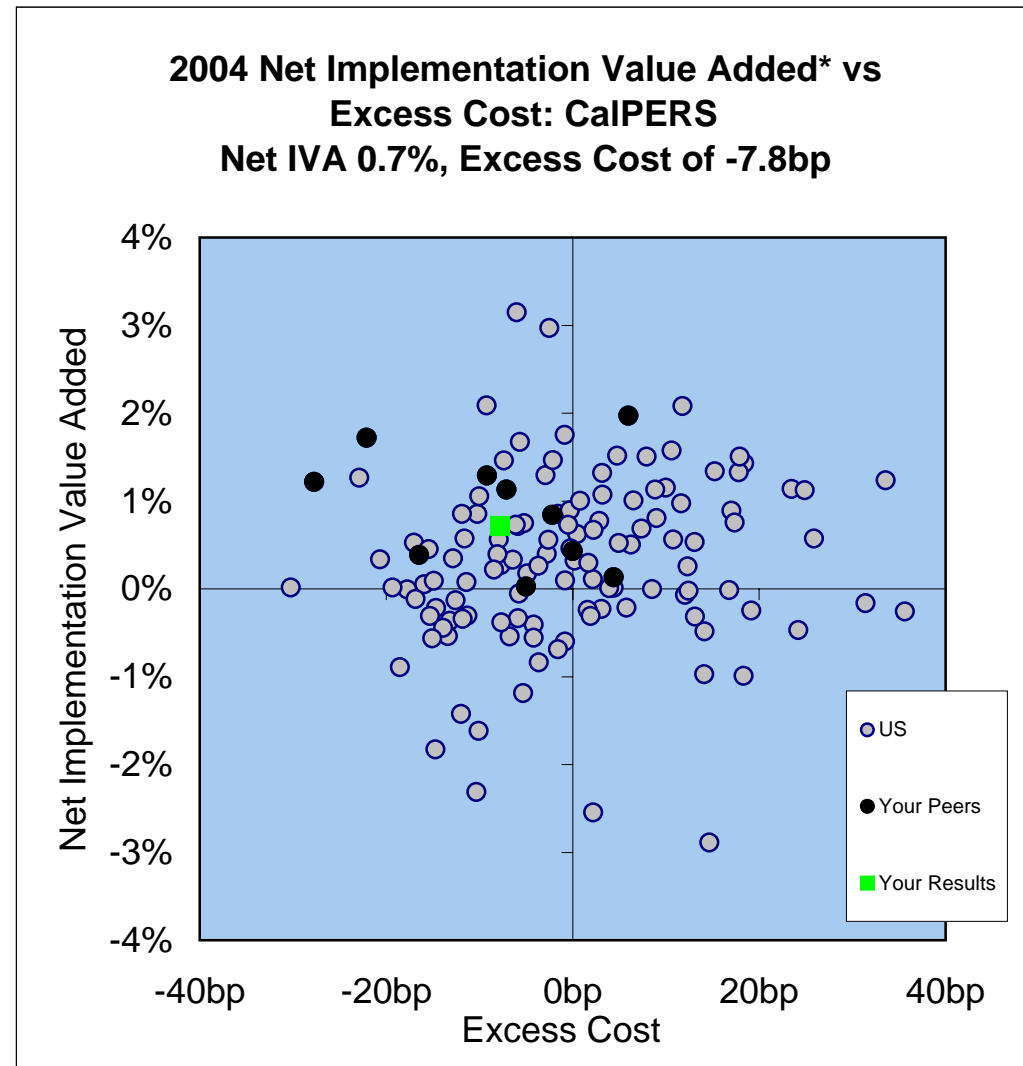
4. Costs -
Summary

Your low cost status was a result of using lower cost implementation styles and paying less for similar services. Your total cost savings compared to your peers was over \$134 million.

Your 2004 Excess Cost Breakdown		
	<i>Impact in in \$000's</i>	<i>Impact in basis points</i>
Implementation Style Impact	-30,639	-1.8
Detailed line item comparisons:		
Oversight, Custodial & Other Costs	-10,145	-0.6
Overlay Impact	-18,354	-1.1
Internal Investment Management Costs	-367	0.0
External Investment Management Costs	-74,530	-4.3
Total Excess Cost	-134,035	-7.8

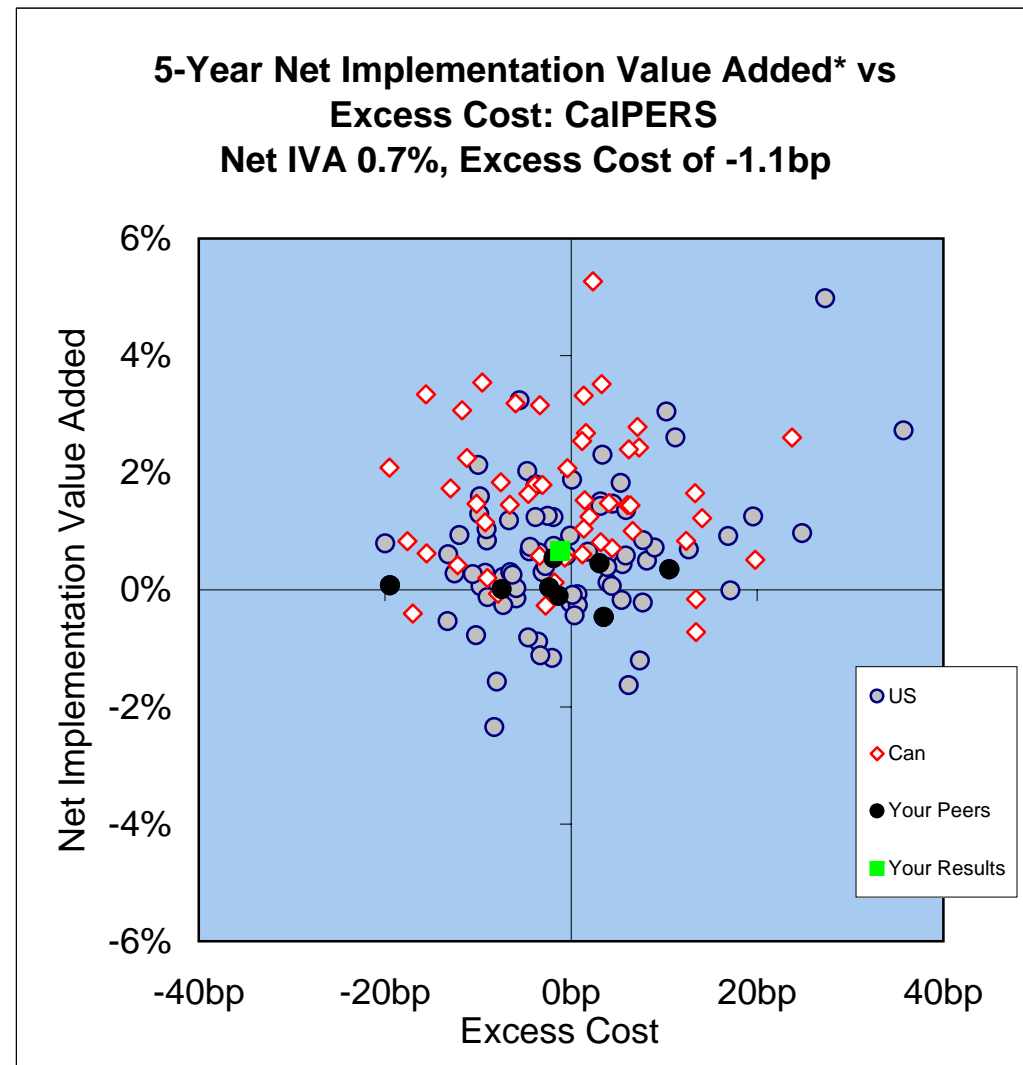
5. Cost
Effectiveness Chart

For 2004, you were in the positive value added, low cost quadrant.



**5. 5-Year Cost
Effectiveness Chart**

**Over the past five years, you were in the
positive value added, normal cost quadrant.**



In summary: Relative to your peer group you had a higher Implementation Value Added and lower cost structure.

1. Policy Return

- Your 5-yr policy return of 2.4% was below the US median of 3.2%.

2. Implementation Value Added

- Your 5-yr Implementation Value Added was 0.9% per annum. In dollars, this was approximately equal to \$1.6 billion per year. This compared to a 5-yr US median of 0.8% and a peer median of 0.4%.
- Your 10-yr Implementation Value Added was 1.0% per annum. In dollars, this was approximately equal to \$13.7 billion over the 10 year period.

3. Implementation Risk

- Your 5-yr average implementation risk was 1.3%, compared to the US median of 1.3% and the peer median of 1.1%.

4. Costs

- You were a low cost fund. Your 2004 cost of 24.6 bps was low relative to your Benchmark Cost of 32.4 bps (i.e. a savings of \$134 million) primarily because you paid less for similar services and received cost savings from your lower cost implementation style of less external active management.

5. Cost Effectiveness

- For 2004, you were in the positive value added, low cost quadrant.